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Foreign Trade and the U.S. Farmer

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This week's cover:

In its 50 years of existence, the annual National Agricultural Outlook Conference has helped farmers, processors, marketers, and exporters to meet emerging trends in agricultural trade and production. The 1972 Conference, held in Washington, D. C. February 22-24, focused on the future of U.S. farm products in world trade.

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Secretary of Agriculture Earl L. Butz opens Conference.

The Future of U.S. Farm Exports At the 50th Annual Outlook Conference

The future of U.S. farm products in international trade was discussed by several hundred economists, agriculturalists, trade specialists, and policymakers at the 1972 National Agricultural Outlook Conference held in Washington, D.C. from February 22 through 24.

It is especially significant that the theme of this—the Fiftieth Annual Outlook Conference—should be international trade, which contributes an increasingly larger share of the U.S. farmer's income. Back in 1923, when the first Outlook Conference was held, exports of farm products totaled only $1.9 billion; by fiscal 1971, exports had expanded fourfold, to $7.8 billion. Despite the crippling dock strike, exports in 1972 will probably approach last year's record level—while farm income is expected to reach an alltime high.

Will exports play an even larger role in farm income in the future? What crops will continue to hold an important place in world markets? How will dock strikes and foreign trade barriers affect the welfare of American farmers? How can U.S. exporters meet the stiffer international trade competition of the 1970's?

Some answers to these vitally important questions were discussed at this year's Outlook Conference, and a sampling of opinions is included in the following pages.

"Why should I produce for a world market when world prices may not be high enough to meet my cost of production?" **Assistant Secretary of Agriculture Clarence D. Palmby** *responds to this question in*

The Case for U.S. Trade in Farm Products

Remember the old adage often quoted by bankrupt retailers: "It was the volume that kept me alive even though I suffered a loss on each unit."

This attitude is obviously in the minds of farmers when they ask why they should be expected to produce for export at prices prevailing in the world. It is a good question and one which I wish to answer in making a case for U.S. trade in farm products.

In recent years, American producers of some agricultural commodities have not been adequately rewarded for their contributions to a growing economy. Some have been caught in a period of rapid change in the way their business is carried on. They face staggering problems in finance, management, technology, and marketing.

This is a year when farmers are making sizable adjustments in grain acreages. Farm prices are improving some, and we expect a somewhat better year in 1972. Nevertheless, farmers wonder about the future.

In the past 2 to 3 years, we have carried on in this country what is probably the most intensive study and review of trade policies ever in history. Committees of Congress, a Presidential Commission, White House staff, Executive Departments, universities, private seminars—all have contributed to the record flow of analyses and advisories related to world trade. This Outlook Conference is another fountain of information and opinion.

Three sets of facts stand out in these discussions:

First, there has been a serious growth in overseas trade systems that do not take sufficient account of comparative advantage in production.

Second, the old coalition of U.S. interests that has kept this country on a course favoring liberal trade is somewhat altered. Industrial imports have been rising during the same time that unemployment has become a serious concern in our country. The result is that many groups have become increasingly fearful of foreign competition.

Third, the United States is no longer competitive in the production of many items. This is cause for the most searching inquiry into our own methods, our own productivity in certain fields, and our own goals. We cannot, of course, expect to be ahead of everyone else in everything we produce.

Increasingly, the United States has a tough time meeting foreign competition in certain industrial and consumer products. There are rapidly growing deficits in motor vehicles, textiles, clothing, and footwear. On the other hand, we continue to have a comparative advantage in the more "technology intensive" products. Our trade surplus has grown in aircraft, computers, and chemicals.

U.S. producers also retain a comparative advantage in the production of many agricultural items. We often think of grains and soybeans as commodities in which we are the world's most efficient producers. But we also are extremely competitive, when given the chance to compete, with our citrus fruits, tree nuts, and many poultry and animal products. For some products, such as tobacco and meat products, our advantage lies in quality rather than price, and we do not compete as effectively in markets where a lower quality is acceptable or officially favored.

The governments of importing countries can, of course, act to nullify the benefits of comparative advantage. For example, we have been for years highly competitive in the production of poultry meat, and there is no question that we could be selling larger quantities of poultry products in the Common Market countries, except for one thing. A system of levies in the Community is administered to shield that market. To ship broilers into EC countries today, we would have to overcome a price disadvantage of about 12 cents a pound. And if we suddenly found ourselves able to leap that barrier, it would no doubt be raised still further.

Similar devices are applied to other commodities. The United States is working to maintain our markets for grains, tobacco, citrus fruits, and other commodities that are threatened by trends in the Community. We are also working with other importing countries —Japan is a major example—to broaden access to U.S. exports there. We have had some success on both sides of the world, and we would like to see further liberalization.

Meantime, we should continue and strengthen those programs and those production systems that make us competitive, and keep us competitive, in the production and marketing of agricul-

(Continued on page 15)

Raymond A. Ioanes, Administrator, Foreign Agricultural Service,
examines prospects for U.S. agricultural exports in 1972 . . . the strong role of market development in expanding these exports . . . and the impact of growing demand in the USSR and Eastern Europe.

The Outlook For U.S. Trade In Farm Products

The job of estimating the agricultural export total has been tougher than usual this year. There have been dock strikes that have had both immediate and long-range effects on our shipments. There is the Government's New Economic Program, some phases of which—for example, currency realinements and short-term discussions—have introduced new variables. There have been the new sales of feedgrain to the Soviet Union. There was the conflict between India and Pakistan—countries that have been large recipients under Public Law 480. And there have been some significant changes in the crop picture around the world.

Nevertheless, we have made an estimate. We now estimate—assuming disruptions of transportation are ended promptly—that U.S. agricultural exports will hit about $7.4 billion for the full fiscal year 1972. That total would be about $400 million less than the record $7.8 billion shipped in 1971.

In examining the situation commodity by commodity it is apparent that reduced exports of wheat and feedgrains account for most of the decline expected in shipments this year.

Wheat. Exports for the 12 months are estimated at 575 million bushels, as compared with 739 million last year. The dock strikes figure in this decrease, of course. But there also has been some weakening of demand because of increased supplies in Western Europe. The price of wheat exported this year is expected to average somewhat higher than last year. This year a substantial share of exports has been of high-quality, relatively high-priced hard wheats exported primarily for milling. Last year there was a larger than usual quantity of low-priced, "ordinary" hard wheats exported. Much of this wheat, used abroad as a feed, was substituted for corn.

Both Canada and Australia are having good export years.

Canada's exports are expected to total over 500 million bushels—100 million bushels more than a year earlier. The Canadian situation has been helped greatly by sales of about 110 million bushels to the Soviet Union and about 118 million bushels to Mainland China. Canada also picked up some business we could not supply in the Far East because of the dock strike.

By the end of the 1971–72 crop year, Canada's stocks of wheat will have been brought below the 600-million-bushel mark—still a very comfortable reserve. Canada, incidentally, has just announced that it is increasing its guaranteed return to its producers for milling quality wheat used domestically to Can$3.00 per bushel. Furthermore, the increase in the guarantee of about $1.00 will now be paid by the Canadian Treasury.

Australia's wheat shipments are expected to total 300 million bushels, well above average although down from the 342 million bushels of the previous year. Australia has sold substantial quantities of wheat to the Soviet Union, East Germany, and Egypt. Australia also has picked up business in Japan, South Korea, and Taiwan because U.S. dock strikes have kept those countries from obtaining usual quantities of wheat from the United States.

Australia has brought its wheat stocks to a low level. The supply situation has improved so much, as a matter of fact, that the Australian Government has increased the delivery quota from 339 million bushels last year to 407 million bushels for the 1972–73 harvest.

Feedgrains. U.S. shipments are estimated at 18.7 million metric tons—down 1.0 million from last year. The value of exports will be down even more. "New" feedgrain exports of about 2.0 million tons to the Soviet Union in this fiscal year will be more than offset by reduced shipments to other markets, mainly Western Europe and Japan. As in the case of wheat, the dock strikes have been responsible in part for the reduced shipments.

The Russian purchase undoubtedly was the top feedgrain export story in this current year. The importance of this deal can hardly be overemphasized. It opens up a new market for U.S. feedgrains. It paves the way for expanded future trade following President Nixon's reversal of the earlier policy that gave special preferences to U.S.-flag vessels on shipments to the Soviet Union and to certain other East European countries.

Canada and Australia have been moving strongly to expand feedgrain production. In these two countries the increase in feedgrain output has been about 50 percent above the 1969 level. With favorable weather in the European Community in 1971, coarse grain production rose to a record 43.0 million metric tons.

Despite the production gains that I

have mentioned in Australia, Canada, and the European Community for the current season, we have the potential for a substantial gain in our feedgrain exports for next year. It now appears that production of corn and sorghum grain in Argentina from the current harvest may be down as much as 3.0 million to 4.0 million metric tons. We look for Brazil, notwithstanding an expected production increase, to have less new-crop corn available for export because of low stocks and a continuing increase in domestic consumption.

On the demand side this year, we are seeing a much bigger net gain in import requirements emerging for the Soviet Union and Eastern Europe than was apparent earlier in the season. Although our analysis is incomplete, it appears that this important area of the world will have an increase in net grain imports of at least 8.0 million metric tons this year as compared with last year. A large volume of U.S. grain we had thought was being consumed in Western Europe is being transshipped to Eastern Europe. We are beginning to think that this same demand situation will continue in 1972–73.

Rice. Exports of rice in fiscal 1972, at 37.5 million hundredweight, milled basis, will approximate the previous year's total. An expected small decrease in the price reflects not only the reduction in commercial sales but also depressed world rice prices. Despite greater reliance on export payments, the United States is feeling increased competition on commercial sales from Argentina, Italy, and Thailand in our markets in Western Europe, Canada, and the Middle East.

A significant shift from commercial sales of rice to Public Law 480 exports has taken place. Of the 37.5 million hundredweight estimated for this year, 13.0 million, or 35 percent, represent commercial sales. A few years ago 57 percent of our rice sales were commercial.

Oilseeds and products. Shipments of oilseeds and products will set another record. The figure for fiscal 1972 is estimated at $2,124 million as compared with $2,065 million last year. Soybeans and products account for about 90 percent of this category.

The performance of oilseeds and products is very good, considering that the hog cycle is in its down phase around the world. Growth in meal requirements, therefore, is substantially less than a year earlier—and less than it will be in the period immediately ahead. But basis for further growth in requirements is still there. We continue to be optimistic about the future of oilseeds and meal, but the outlook for vegetable oil exports is less favorable.

The continued strong foreign demand for soybeans has contributed to the expected increase in the price of soybeans this year. Farmer returns would have been higher had we not experienced work stoppages at our seaports, particularly at harvest time.

Cotton. Exports of cotton are estimated at near or slightly more than 3.0 million bales, down from 3.7 million bales last year despite a strong export demand. Scarce supplies, especially of the shorter staples, largely explain the 20-percent drop in shipments. It is regrettable to know that we could ship more cotton if we only had it to ship. However, we are heartened by the "Prospective Plantings Report," which shows that upland cotton plantings are expected to be 7 percent higher in 1972.

Tobacco. Exports of unmanufactured tobacco are expected to drop to 550 million pounds from 584 million last year (export weight, including cut tobacco in bulk). But despite this decrease, the export volume is pretty good when we consider the price of U.S. leaf in comparison with prices of competing suppliers. Our export price in fiscal year 1972 is expected to average slightly over $1 per pound, up 3 percent from last year. But although we are doing fairly well on our exports, we must expect increasing competition from low-priced tobaccos down the road.

Fruits and vegetables. Exports, on a dollar basis, will increase about 4 percent. There will be expanded shipments of deciduous fruits, fresh citrus fruits, and tree nuts, but reduced exports of processed citrus, dried fruits, and canned fruits.

Livestock and meat products. Shipments are estimated at an aggregate of $667 million—7 percent below the $728 million shipped in fiscal year 1971. Reduced exports of tallow to Japan, of lard to the United Kingdom, and of live slaughter cattle to Canada account for much of the decline.

Dairy products. Exports will be up almost 65 percent in the 12 months. The star performer has been butter. This product has not been available this year in the usual export quantities from regular suppliers, such as New Zealand and Australia. And supplies in the European Community are in much better balance than they were a few years ago. To help meet the demand, the Commodity Credit Corporation sold in the first half of the fiscal year over 125 million pounds of U.S. butter for export, most of it to the United Kingdom.

Poultry. U.S. poultry exports, including breeding stock, are expected to increase by about 5 percent to $80 million. This strong export performance shows that our poultry has great competitive strength despite the many restrictions on trade it has encountered as well as the heavy use of subsidies by some competing exporters.

American farmers have come to have an increasing awareness of the importance of foreign markets. And over the past 20 years they have become active participants in the foreign market development effort.

Market development is a time-consuming, complex, and integrated process. A breakdown in any segment of the process will frustrate the whole effort. There may not be enough understanding of how much work has been done to develop foreign markets. Here is the background of just one successful market development effort: the attainment of a hundred-million-bushel wheat market in Japan.

The market development effort in that country got off to a strong start when General MacArthur, in the late 1940's, helped to initiate a limited school lunch program utilizing American wheat and nonfat dry milk solids. You may recall that Japan had been traditionally a rice-eating country. At that time wheat was relatively unknown in Japan and its introduction to the youth of that country was a helpful beginning. As time went by, the market development program moved to a broader base of consumer education. In cooperation with agencies of the Japanese Government and U.S. wheat producer groups, demonstrations were held for housewives. Touring kitchen buses were used so that housewives could learn how to prepare wheat foods in the home. Another part of this program was aimed at nutrition education among the home economists of this island country. Also, with U.S. Government help, the Japanese school lunch program was expanded.

A second phase of the program in-

volved a combination of education and promotion. As part of the effort, work was undertaken with Japanese baking groups to set up training schools. Cooperative relationships were established with 12 different groups in Japan—millers, noodle makers, pasta manufacturers, confectionery manufacturers, in addition to the baking groups. Joint promotion programs were developed with them to introduce new wheat foods into Japanese diets—doughnuts, pancakes, pizza, and macaroni and other noodle products.

Exchanges of people and technical information helped. Japanese milling, and baking, and purchasing teams visited the United States. U.S. technical experts have been to Japan many times. This was all part of the market development process. We were not only building a market for our products but we were building important trade partnerships with the business community in Japan.

Quality problems had to be faced. Perhaps some of you may recall the work that was done to introduce our hard wheats into Japan—our durums and our springs. We had to take strong action some years ago to make sure that our future shipments would meet Japanese requirements after our experience with sprout damage in the Far West.

And we found that market development also calls for modification and improvement of our delivery system. Japanese trade routes and buying preferences suggested that we would be at a disadvantage if we could not position our different qualities of wheat on the west coast. That positioning was accomplished. Along the line we also found that internal rail rates needed adjustment and with the cooperation of many groups rates on westward movements were reduced.

Market development also implies the ability to make deliveries to foreign buyers at competitive prices, and reaching this objective called for adjustments in domestic U.S. programs. This has also been done. In recent years domestic programs have been changed to set price support levels at or near world market levels. This has helped to facilitate export sales.

U.S. wheat producer groups, Western Wheat Associates and Great Plains Wheat, have been our partners in the wheat market development program. Through them, U.S. farmers have been active participants in the process.

So, after 20 years of hard work and in cooperation with many individuals and groups in this country and Japan, we have built a hundred-million-bushel market. You can understand why, today, we feel frustrated when disruption of one part of this system built over the years negates the whole effort.

There have been substantial losses of exports to Japan this year because of the dock strikes. If the strikes end soon, we have a chance to regain some of the lost ground. If we can resume deliveries promptly, we can, perhaps, ship 75 million to 80 million bushels of wheat to Japan this season. But we still will have lost millions of dollars in export sales. We face the real threat of losing the fruits of an effort that took years to build. It is imperative, therefore, that we find a solution—a permanent solution—to the problem of work stoppages in our export delivery system.

The Soviet Union harvested a large grain crop in 1971 for the second year in a row. Its livestock production also made good gains for the second successive year. Meat output rose 7 percent to a record level and egg production climbed 10 percent, also to a record high. Despite these increases consumers want more. Demand has stayed ahead of availabilities.

This demand is not new. In trying to meet it, the Soviet Union has supplemented its own production by purchasing red meat from Australia and New Zealand and poultry from Western Europe. It also has bought breeding cattle from the United States, Canada, and other Western countries as a start toward a long-range program to upgrade cattle herds.

In observing these efforts to increase agricultural production, many of us have asked ourselves this question, "When will the Soviet Union increase its use of grain concentrates?" The USSR tried to expand production of corn some years ago—an effort that was given major emphasis by Premier Nikita Khrushchev. But as the Russians now acknowledge, the Soviet Union is not well adapted to corn production. And overall production of feedstuffs apparently cannot be brought along on the scale or as rapidly as is desired. So last fall the Soviet Union bought $135 million worth of U.S. feedgrains. We hope they buy more—and there are signs in that direction.

Eastern Europe also is trying to upgrade diets and has placed a high priority on livestock expansion over the next 5 years. The goals range from an increase of 18 percent in Hungary and Czechoslovakia to 100 percent in Romania. The heaviest emphasis is on hogs, which require high-energy, high-protein rations. The planned targets are far in excess of the results achieved by these countries in recent years. Poland, for example, hopes to increase its per capita availability of meat in 5 years by the same amount that availabilities rose in the last decade.

There are already some signs of progress. Hog production is increasing. Fewer calves are being marketed by Eastern Europe to Western Europe, which is feeling what it refers to as a "calf crisis." Prices have been increased to producers, grants and loans are being widely employed, and the use of modern technology is being encouraged.

What is happening in the Soviet Union and Eastern Europe strikes me as having special significance in terms of human values. While the demand for an improved standard of living is not new in these countries, the seeming determination of governments to meet that demand *is* new. Continued pursuit of an improved living standard by the Soviet Union and Eastern Europe—a pursuit based in part on an expansion in farm product trade—would open up a whole new vista of trade possibilities between East and West.

In conclusion, I would like to make this point: Despite our gains in agricultural exports, we still are not shipping as much as we should.

The record agricultural exports in fiscal 1971 and the next-to-record shipments in prospect for fiscal 1972 represent encouraging progress. But we still are far short of reaching the export totals that our comparative advantage in many commodities indicates that we should reach.

The principal limiting factor in this situation is, of course, the protectionism of importing countries. But as I indicated earlier, export expansion is a job that also involves production, reliable delivery, certainly market promotion, and many related activities all along the marketing chain. Only when the job is done properly at all stages can we realize the full potential. That's the challenge that faces us.

Can the United States, Japan, the European Community, and the Soviet Union "reconcile divergent views" and take practical measures to expand international trade?
Howard L. Worthington, Deputy Adminstrator, Foreign Agricultural Service
takes a look at this challenge in

The Environment Of the World's Trade and Monetary System

On August 15, 1971, the President applied a 10-percent surcharge on imports, floated the dollar, and announced that there would have to be changes negotiated in the world monetary and trading system before the dollar was again fixed and the surcharge removed.

Since that date, we have been involved in major trade negotiations with our principal trading partners, in which agriculture has been a vital factor.

The principal outcome of this effort in the trade field was an agreement between the United States and the EC to: ". . . undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT (General Agreement on Tariffs and Trade) beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and the ever greater liberalization of world trade and improvement in the standard of living of the people of the world, aims which can be achieved inter alia through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade. The Community states that in appropriate cases the conclusion of international commodity agreements are also one of the means to achieve these aims. The United States states that such agreements do not offer a useful approach to the achievement of these aims.

". . . The negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible."

We concluded a similar agreement with Japan.

During the negotiation I was struck by three things:

- More concern by our trading partners with the integrity of the GATT and having negotiations in the framework of the GATT.
- A sharp concern on their part to continue the concept of reciprocity in trade negotiations.
- In the case of the Community, a concern for recognition of the role of commodity agreements in trade negotiations for agricultural products.

These reactions are understandable. In their eyes the U.S. surcharge was contrary to GATT rules. Worse, perhaps, as they saw it, the United States was demanding unreciprocated trade concessions along with exchange rate realinement as a price for a monetary settlement.

This had never happened before. It was a new trade environment indeed. They were concerned to get things back onto a familiar track—and this was GATT and reciprocity.

But the world trade environment will probably never again be what it was. The surcharge has been removed and currency rates are realined. The words about GATT and reciprocity are in the declaration.

However, some basic differences in trading philosophy have been clearly revealed. There are differences in the way the major nations see the trading world. They are going to be hard to ignore.

These differences in world view are really the crucial factor that will determine the shape and structure of the international economy during the next decade or two.

Let's look at the United States, the European Community (EC), Japan, and the Soviet Union in respect of three basic questions about the philosophy of world trade:

- To what extent do these major powers regard world trade as taking place within the context of a global economy? That is, do they have special policies for individual countries (bilateralism) for groups of countries (regionalism) or do they try to keep their policies global (multilateralism)?
- How do they see the role of price in world markets?
- How do they see the relationship between business and government in international trade?

The United States. The United States remains among the strongest advocates of globalism, or multilateralism in world trade. We have always been a leading supporter of the GATT, Organization for Economic Cooperation and Development, International Monetary Fund, and other international organizations to develop multilateral solutions to trade and monetary problems.

This basic view is not an altruistic one. It reflects the diversity of our commercial interests. In 1970, our three largest trading partners were Western Europe, Canada, and Japan. We exchanged $25.7 billion worth of goods with Western Europe, $20.2 billion with Canada, and $10.6 with Japan. The value of our trade with the rest of the

world slightly exceeded that with Western Europe—$26.7 billion.

The fact is, that we have markets all over the world, that we depend on raw material imports from many different regions, and that the spread of American investment overseas into most corners of the globe encourages development of trade relations in all these different areas. The willingness of the present Administration to seek to open up trade with the Communist world, even though its trading practices are so very different from ours, is one more sign of the continuing American view that world trade should take place in as open an international environment as possible.

We have supported departures from this general policy, of course. European regionalism—the European Community —the European Free Trade Area (EFTA), free trade areas in Latin America and Africa, and a generalized preference scheme have all received our support. But not as ends in themselves.

In our eyes, they have been way stations only. Our goal has been, and remains, a global trading world.

Ideally, the United States also would like to see price determine the pattern of production and the flow of trade both domestically and internationally. Many factors other than price help to determine where and why trade moves from one region or country to another. And we know that the United States economy is not free from price interference mechanisms in its conduct of world trade. For example, we have Section 22 quotas on four major agricultural commodities, and we restrict sugar and petroleum imports. We subsidize certain agricultural exports.

Voluntary quota restraints have been applied to cotton textiles, and more recently to woolen and manmade fiber textiles, steel, and beef.

To a very considerable extent, however, we have allowed price to be the determining factor regarding our international trade. Tariffs on industrial products in the United States are low, averaging 7 percent. These have been lowered through a series of tariff negotiations with our trading partners since World War II.

U.S. policies in the agricultural sector have increasingly taken price into account. The Agricultural Act of 1970 was specifically aimed at a more market-oriented farm policy, both domestic and foreign. The great bulk of our agricultural output (over 60 percent) receives no direct benefits from our price support programs.

Further, the great bulk of U.S. farm products relies for protection solely on tariffs which average only 5 percent.

The 1960's have seen sharply increasing demands for both tariffs and nontariff protection for domestic interests. Some of these are embodied in legislation.

It is clear that some of these protectionist impulses are really manifestations of the realization that there are divergences of view and practice in the trading community. Nevertheless, the United States continues to support trade liberalization because it believes this is the best way to promote full employment and increase prosperity.

Regarding government-business relationships, our view of the proper way to conduct international trade has been conditioned partly by our attitudes toward the way we think our domestic economy ought to run. We have a tradition in which government and business are not particularly close.

The GATT reflects this view. It sees government as the instrument for removing barriers to the successful operation of the private sector, not as the operator.

Japan. This country is our most important ally in Asia. It is our second greatest trading partner—and a good and valued customer for our agricultural products.

Japan also has the third most productive economy in the world after the United States and the Soviet Union.

How did this economic miracle come about? Undoubtedly, the industry and spirit of the Japanese played a major role in this achievement. But the special relationship between Japan's business and government sectors which stimulates and directs economic growth is also very important. It is quite different from the relationship in the United States and in Europe.

The Japanese believe that the establishment of long-range economic goals through a consensus of government and business is essential for the development of the Japanese economy. The basic aim is to shift out of less productive, less efficient industries, to the more productive industries of the future—computers, for example.

There are many tools the Japanese Government can use to help carry out these plans—tax credits, depreciation allowances, import controls and controls over foreign capital, to mention a few. One of the most powerful tools the Japanese Government has in directing the development of the economy is its credit policy. Under the direction of the Bank of Japan, the banking system can channel capital to those industries marked for expansion while denying it to or contracting it from other industries considered expendable.

Another Japanese phenomenon is the trading company. Large trading companies handle nearly 75 percent of Japan's export trade and nearly 90 percent of Japan's total foreign trade. This gives Japanese companies a market advantage. Because of the huge volume of sales they handle, trading firms are able to operate on small profit margins.

This special business-government relationship has implications for Japan's view of the role of price in international markets. The Japanese Government has used restrictions such as quotas, high tariffs, credit restrictions, and state trading to give an advantage to domestic products. These restrictions have covered a wide range of products including certain "technology-intensive" goods such as computers and advanced electronic products. Japan is the only country in the world with which the United States has a negative trade balance in technology-intensive products.

Over the last few years Japan has made major efforts to reduce its quotas —from some 120 to about 35 categories of products. However, some important items still remain under quota.

When we look at Japan's price indices, we see that the consumer price index based on 100 in 1960 rose to 176 by 1970, while the export price index rose to only 105 in this period. This reflects a very competitive export pricing policy and tax and other incentives which favor exports over domestic goods.

Japan is definitely a supporter of multilateral trade in its relations with other industrialized countries. For years, however, multilateralism has been denied it. When Japan joined the GATT in the 1950's, most members—but not the United States—refused to fully apply GATT rules to her. This meant that Japan was discriminated against and had to deal with these countries on a bilateral basis. This was the case with trade with many Western European countries.

Trade still does not flow on a multi-

lateral basis between Japan and Western Europe since most European countries continue to maintain at least some restrictions against certain Japanese products. For instance, Italy imported 12 motor vehicles from Japan in 1969 and 481 in 1970. The United States, on the other hand, imported about 800,000 motor vehicles from Japan in 1969 and considerably more in 1970.

This discriminatory treatment against Japan has led to Japan's greater reliance on the U.S. market. About 30 percent of Japanese exports go to the United States, but only some 7 percent to the European Community and 13 percent to all of Western Europe. This situation, of course, has greatly aggravated U.S.-Japanese trade tensions.

In its relations with most less developed nations, Japan prefers to deal on a bilateral basis. Japan makes a concerted effort to buy more from these countries—particularly raw materials and food products—in order to export more of Japan's industrial goods.

The European Community. A great deal has been said recently about Western Europe's moves toward regionalism and about their agricultural system. Less has been said about their desire to see world markets in agriculture strictly organized. There is major stress on regionalism as opposed to the globalism of the United States and Japan. For example, on January 22nd, the four countries joining the Common Market (the United Kingdom, Ireland, Denmark, and Norway) signed the treaty which would enlarge the Market to 10 countries. At that time British Prime Minister Edward Heath said:

"Clear thinking will be needed to recognize that each of us within the Community will remain proudly attached to our national identity and to the achievements of our national history and tradition.

"But, at the same time, as the enlargement of the Community makes clear beyond doubt, we have all come to recognize our common European heritage, our mutual interests, and our European destiny."

Trade figures reveal some of the basis for this regional orientation. In 1970, 62 percent of EC imports, including trade between the Member States, originated in Western Europe and another 6 percent came from countries in the Mediterranean, Africa, and elsewhere which receive preferential tariff treatment for their shipments to the EC. Similarly, 68 percent of EC exports went to Western Europe and another 7 percent to less developed countries and Mediterranean countries receiving preferences. The effects of European integration to date, also, have been dynamic. Trade between the EC Member States increased more than six times from 1958 to 1967 while their trade with the rest of the world not quite tripled.

Clearly, the extension of the European Common Market preferences to most of the Continent which is now taking place is a very different approach to the conduct of trade relations than that which the United States has traditionally supported.

In many other respects the European Community shares our view that the international economy functions best when price relationships are allowed to determine the flow of trade. For example, the EC has been liberal in allowing business to operate and foreign capital to become established with a minimum of government regulation. U.S. investments in the EC, for example, in all fields rose from $1.9 billion in 1958 to $10.2 billion in 1969.

Also, for industrial products in the EC, there are few government regulations or administered prices. Tariffs are low (8.7 percent on average for manufactures, 6 percent for semi-manufactures). There are not many nontariff barriers (NTB). And there is no "common industrial policy."

When it comes to agriculture, however, we hit a second major difference in our understanding about how the world trade environment should be structured. In agriculture, the European Community, whose trading support system will soon apply to most of Europe, regards the world market as wholly artificial—a place where national shortages and surpluses are cleared with the help of subsidies and other devices paid for by those participants who can afford it.

Internally for its main agricultural products the EC sets support prices at levels intended to provide an acceptable income to its small farmers, and imposes levies on imports to offset the difference between the EC support price and the cheapest corresponding import. Subsidies bridge the difference for exports. EC farmers are in this way insulated from world market developments. Support prices are high—and they have encouraged production.

Externally the EC advocates organizing world markets in agriculture through a system of commodity agreements. This EC idea appeared officially in the declaration on 1973 trade negotiations agreed some weeks ago by the United States and the EC. Dr. Sicco Mansholt, vice president of the EC Commission, recently emphasized that multilateral negotiations should lead to simultaneous engagements to enter into a series of commodity agreements which would cover *all* agricultural commodities of significance in world trade.

The deep gulf which separates the United States and the European Community in this area is a clear example of the very basic differences with which we must come to terms if we are to reach mutually satisfactory solutions to our outstanding problems.

The Soviet Bloc. There are a number of reasons why we can no longer ignore this part of the world in a discussion of the world trade environment.

For one thing, the Soviet Union itself, and its East European allies, want to expand trade with the West. Economic stagnation in the Soviet area, the loss of substantial trade with China, and the recognition of decided advantages to be gained from expanding trade with the West—including access to Western technology and management skills—have prompted them to encourage a thaw in East-West trade relations.

Noneconomic factors are also contributing to this thaw. U.S.-Soviet talks on strategic arms limitations (SALT), West German agreements with the Soviet Union and Poland on border questions, NATO proposals for a discussion of mutual and balanced force reductions, and an agreement on Berlin have been the first steps in promoting better East-West relations in the political and military fields.

At the same time the Soviet Union has intensified its efforts to promote a multilateral conference to discuss security and cooperation in Europe and has highlighted economic cooperation. This conference may possibly begin in 1973. Interested European countries plus the United States and Canada would likely be involved. The conference would discuss, among other items, the expansion of economic cooperation among the participating countries. If the conference is held, we will be faced with the need to find a means of coordinating in a practical sense U.S. and Japanese multilateralism, Soviet bilateralism, and

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"We are now in a period of transition between two eras."
William R. Pearce,
Deputy Special Representative for Trade Negotiations,
analyzes far-reaching changes in

United States International Policy for The 1970's

The past quarter century has been a period dominated and shaped by U.S. policies and leadership. We are now entering an era in which responsibility for the world trading system will be shared by three major industrial centers—Europe, acting increasingly as a unified economic power, Japan, and the United States.

The new era will likely be one of increasing economic interdependence. Since World War II we have made considerable progress in trade liberalization. Extension systems of quantitative trade controls—a legacy of depression and war—have been swept away. Tariffs have been reduced to relatively modest levels. A vast international capital market has developed within which funds flow easily and rapidly.

The multinational enterprise has emerged as a powerful influence in spreading modern technology, management, and capital resources throughout the world. These developments have brought enormous benefits but they have also intensified problems of domestic and international adjustment. New policies and new arrangements are needed to facilitate these adjustments.

Perhaps the most dramatic evidence of that need was the series of monetary crises culminating in suspension of convertibility of the dollar into gold and other reserve assets on August 15 of last year. This event precipitated negotiations for a restructuring of international monetary arrangements that have provided a framework for trade and investment for a quarter of a century.

Under these arrangements—established at Bretton Woods after World War II—countries agreed to maintain fixed exchange rates allowing their currencies to fluctuate within narrow limits. While there was provision for adjustment of exchange rates in cases of fundamental disequilibrium, primary reliance was to be placed on internal measures—domestic monetary and fiscal policies—to maintain balance of payments equilibrium.

But countries committed to economic growth and full employment were not always able to balance their external accounts with these policy tools and, during the 1960's, a number resorted to large, destabilizing devaluations. Surplus countries, on the other hand, were reluctant to appreciate their currencies, and thus exerted pressure on the payments positions of their trading partners. From the beginning, the system depended on the willingness of the United States to supply reserves needed for expansion through continued balance of payments deficits. The responsibilities placed on the United States became incompatible with its changed position in the world economy. The time had come to initiate fundamental reform.

Since the dollar was the center of the system—the main reserve and transaction currency—the United States could not effectively devalue unilaterally. What was needed, as a first step toward reform, was multilateral agreement on a realinement of exchange rates providing a significant dollar devaluation. This was accomplished with the Smithsonian Agreement on December 18. Participants in the Smithsonian Agreement also accepted the concept of wider bands—that is, exchange rates would be permitted to fluctuate over a wider range around the newly established rates. They also agreed that discussions should be undertaken promptly to consider reform in the international monetary system over the longer term. These discussions will be pursued in the coming months.

We do not yet know the exact nature of the system that will emerge from these discussions, but it seems clear that the new system must provide a more balanced role for the United States and for greater exchange rate flexibility. Frequent, small, and timely changes in exchange rates can smooth the external adjustment process, accommodating differences in national price levels and providing a more equitable basis for international competition.

This seems an important point. The continued overvaluation of the dollar has undermined the competitiveness of United States exports and intensified import competition on a broad scale. This has had important domestic implications for the maintenance of liberal trade policies.

There has been great pressure for restricting imports and for subsidies and various forms of indirect financial aid to exports. The leadership of organized labor, once a staunch supporter of liberal trade, is now supporting import quotas and broad restrictions on foreign investment. I do not mean to imply that this is all—or even primarily—attributable to an exchange rate problem. But a smoothly functioning external adjustment process could do much to ease the strain.

At the same time there is a critical need to consider fundamental changes in the structure and functioning of our domestic economy. Here I would like to mention several recommendations of the President's Commission on International Trade and Investment Policy—the so-called Williams Commission—that have received surprisingly little public attention.

A major consideration here is the rate at which advantage can shift in a highly integrated world. Rapid change in patterns of trade can produce severe problems for firms and workers in sectors of the economy that cannot adjust quickly and smoothly. These problems will exist whether the balance of trade or payments is in deficit or surplus.

They cannot be resolved through exchange rate adjustment. A different set of policy tools is needed.

This lies close to the heart of labor's changing attitude toward trade policy. Workers possess substantial stakes in their skills, jobs, homes, and communities. It is neither fair nor very realistic in political terms to expect those who are displaced by imports to bear the cost of policies that benefit the economy as a whole. The adjustment assistance program enacted as a part of the Trade Expansion Act of 1962 has proved woefully inadequate in smoothing the transition of these workers to new jobs and new homes. The Williams Commission has proposed far-reaching restructuring and improvement of the program.

But the Commission also recognized that changes confined to the adjustment assistance program itself are not likely to be sufficient to accommodate the demands of competition in the world we are likely to experience in the 1970's. The program represents a major step in the improvement of public policies designed to cope with change. It has served—and can better serve—to reduce conflicts between foreign and domestic economic policies. But, the program is inherently a reaction to events that have already occurred; it cannot anticipate and in itself cannot create jobs and investment opportunities. We may find that more comprehensive industrial and manpower programs and policies are needed for this purpose. The Williams Commission suggested that "the Government could undertake a variety of measures to remove structural impediments to the mobility of American labor and capital and anticipate future adjustments . . . Elements of such a policy would include: the provision of information on likely trends in American and foreign production and employment patterns; identification and Government encouragement of promising new areas of productive activities; greater coordination of existing as well as new Government programs of regional, community, business, and manpower development."

Japan has shown us the effect government involvement in industrial planning and growth can have on competitiveness. Japan has achieved unprecedented growth in the past decade. In part, this results from the fact that it started with low wage rates and has restricted increases to growth in productivity, but its success also results from a unique relationship between business and government and from its willingness to give trade and economic development a high priority in its national planning.

I am not suggesting that the goals and supporting policies adopted by Japan are appropriate here. Instead, I am suggesting that Japan has shown us that it is possible to define economic goals; to identify and support the development of industries likely to be competitive; and to smooth the flow of resources from declining industries to those with potential for growth. Our challenge is to forge policies appropriate to our society that can contribute in the same way to our competitiveness in the 1970's.

I have touched here on two major policy areas that need urgent attention: the twin problems of external and internal adjustment. Improvements in these areas could have an important effect in facilitating the comprehensive trade negotiations on which we are now embarking.

The United States and the European Community have just published a declaration in which they agreed to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT (General Agreement on Tariffs and Trade) beginning in 1973—subject, of course, to such internal authorization as may be required. It was agreed that the negotiations would cover agricultural as well as industrial trade—an important point for this country. A similar declaration was made by the United States and Japan. Other countries were invited to associate themselves with these policy statements.

The importance of this commitment should not be underestimated. The European Community is in the process of adding four new members. The Community also will conclude special trade arrangements with several other European countries. The new negotiation will take place while these changes are being made. It will offer an opportunity to minimize their adverse effects on our trade. At the same time, it will support world trade generally through a further reduction in barriers.

Thorough preparations will have to be made this year. In the coming months we will be analyzing and evaluating in GATT alternative techniques for handling the complex problems to be dealt with in these major negotiations.

It is important at the outset to establish broad objectives. The special high level trade group within the Organization for Economic Cooperation and Development (OECD), in which Ambassador Eberle represents the United States, has been considering a number of key questions. What are our objectives for tariff and nontariff barriers in industrial products? How can we include agricultural trade in a meaningful way? What are the relationships between trade and investment? Between trade and balance of payments objectives? At this point we do not have the answers.

We have made remarkable progress during the past 25 years in liberalizing trade in industrial products. We have concentrated primarily on tariffs and quotas. With trade less restricted by these barriers, a variety of nontariff measures are now assuming greater importance. We will have to develop new techniques and modes of negotiation to cope with these problems. Because nontariff distortions are so varied and complex it is difficult to frame a meaningful advance delegation of congressional authority to the President to negotiate in this area. On the other hand, if we carry out negotiations to the point where the elements of an authorization are clear we run the risk of criticism for presenting a fait accompli. Clearly a close working relationship between the Executive Branch and the appropriate congressional committees will be needed to resolve the problem.

Many nontariff measures are well known and have burdened traders for years. Others are relatively new. Still others are now just emerging as future problems. Environmental control and pollution abatement, for example, are becoming serious concerns not only in the United States but throughout the world. Measures governments are planning and introducing to cope with these problems can have profound effects on trade and investment.

If we require our industries to use expensive equipment and techniques to reduce pollution in the production process while other governments do not place similar burdens on their industries, ours will suffer a competitive disadvantage. Although countries differ in their pollution absorption capacities and environmental quality goals, the situa-

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Frank G. McKnight,
Associate General Sales Manager,
Export Marketing Service,
tells how commercial and concessional sales programs help move U.S. farm products abroad in

U.S. Export Programs

U.S. export programs are of two types: commercial and concessional. The concessional programs are conducted under the authority of Public Law 480. Less well known are the various commercial export programs, whose major function is to help us meet the competition of other exporters and thus maintain and enlarge our commercial exports.

There are four of these programs—Commodity Credit Corporation short-term credit; barter; export payments; and sale at world prices from the Commodity Credit Corporation inventory.

P.L. 480 program. There have been a number of changes in recent years. The program now operates under formal budgetary control, rather than as an uncontrolled item of Commodity Credit Corporation expenditures. Because of increased cereal production in developing countries and legislative restrictions on country eligibility, exports have leveled off at approximately $1 billion a year—well below mid-1960 totals.

The soft terms of the early years, when virtually all sales were made for local currency, have been replaced by long-term dollar credit terms, with payment periods ranging from 20 to 40 years. Beginning this year, no sales can be made under traditional local currency agreements, although substantial defense grants and certain other local currency uses can be authorized by the President. Most agreements will continue to provide for some payment in local currency which our Government would otherwise have to purchase for dollars.

What does P.L. 480 mean to farmers? For one thing, it means a market outlet for $1 billion worth of their annual crop production. And, so far as the farmer is concerned, this is cash business, no different from that which is wholly independent of Government programs.

Moreover, while the program now accounts for only about 15 percent of total agricultural exports, it is vastly more important for certain commodities. In record-breaking fiscal 1971, for example, it accounted for more than a third of our total wheat exports, nearly a fourth of the cotton, half the rice, more than 40 percent of the soybean oil, and nearly 90 percent of the nonfat dry milk.

Short-term credit. The full name of this program is the CCC Export Credit Sales Program. By short-term credit, we mean credit extended to foreign buyers for periods of 6 months to 3 years. The commodities exported are from private stocks.

The purpose of the program, quite simply, is to keep our agricultural products competitive in world markets in the face of the varying credit terms and other export incentives offered by our competitors.

Once a month, we announce a list of commodities eligible for export for credit. At present, 23 commodities are on this list, which includes all the major grains, tobacco, cotton, vegetable oils, tallow, breeding cattle and swine, and dairy products. We have imposed a few limitations as to export destinations. Wheat, for example, cannot be sold for credit to the countries of the European Community.

There are two broad categories of foreign buyers.

One group is composed of countries that permit private firms to engage in fairly free import operations. In these cases, our initial contact is usually a U.S. exporter who comes in with an application for credit to finance a specific sale in a given country. If we determine that this is additional business that cannot be done on a cash basis, or with the use of normal commercial credit facilities, we generally approve it. The exporter then completes the sale and receives payment from CCC. CCC, in turn, takes over the account receivable and is paid under a letter of credit furnished by the foreign buyer.

The other group includes countries having state trading organizations and a few countries having international payment problems. Here, the use of the credit program usually starts with a government-to-government contact, normally between our office and the country's embassy in Washington. If we determine that the use of credit will help us open up, maintain, or enlarge a market for U.S. commodities, we establish a line of credit—usually for repayment over a 3-year period—for the specific country, naming specific commodities. This line is publicly announced, the importing country tenders in the normal way, and U.S. exporters compete for the business.

The interest rate is normally higher than the cost of money to the Government yet low enough to be attractive in most countries. Currently, it is 6⅛ percent on credit backed by a U.S. bank letter of credit and 7⅛ percent if a foreign bank is used. In any event, the buyer must provide U.S. bank coverage of not less than 10 percent of the CCC liability.

The program thus has a particular attraction in countries like Korea and the Philippines where short-term commercial interest rates range from 15 to 25 percent. It is somewhat less attractive in countries like Ireland and Greece where interest rates range between 8 and 10 percent. It appears to offer little or no attraction in countries like Austria, Switzerland, and Portugal,

which have relatively low commercial interest rates.

What does the short-term credit program mean to farmers? In fiscal 1971, short-term credit exports totaled almost $400 million, a large percentage of which would not have been shipped.

For certain commodities, the program has been even more important. It was responsible for about a fourth of the barley exported last year, 15 percent of the soybean oil, 12 percent of the tobacco, and well over 10 percent of the wheat.

In specific cases, it has been a major factor in holding for the American farmer markets which were seriously threatened by competition.

Because CCC credit is a commercial program, it can be used effectively in certain circumstances to satisfy the usual marketing requirement that must normally be met before commodities are purchased under P.L. 480. This combination of the two programs—CCC credit and P.L. 480—is currently helping us, for example, to make our largest wheat sales to Iran in years.

For the current fiscal year, we expect that the level of the CCC credit program will be about the same as in fiscal 1971. We see a continued important role for it in building exports.

Barter. Actually, the term barter is now a misnomer. We no longer exchange agricultural commodities for strategic material. Instead, let's call it, for want of a better term, a "payments arrangement."

Under this arrangement, dollars generated by the export of U.S. agricultural commodities are transferred to other Government agencies, chiefly the Department of Defense, to purchase supplies and services abroad for which the agencies would otherwise spend appropriated dollars.

Basically, it is a means of keeping our products competitive in world markets and building dollar exports.

For one thing, a barter payment of between 1 and 2 percent is made to barter contractors as an inducement to participate in the program. For another, barter contractors are eligible to obtain credit from CCC at 6⅛ percent interest, equal to the value of the commodities that are exported.

This combination—the barter payment and the supplemental credit—is directly reflected in the exporter's cost of doing business. Consequently, he is often able to offer importers competitive prices and make sales that he otherwise could not. The credit aspect of the program can be used by the exporter as a supplement to his working capital requirements or extended to a foreign buyer.

To assure as far as possible that barter business does not displace regular commercial sales, the commodities eligible for the program, as well as eligible destinations, are under continuing review.

In general, the list of eligible commodities is kept somewhat smaller than for short-term credit. It includes all the major grains, cotton, tobacco, and vegetable oil, but not dairy products or live animals.

Countries are classified for each eligible commodity. If a country has an excellent record as a cash market for a particular U.S. commodity, barter shipments are not generally permitted. If a country has a history of being a fairly regular customer for a particular U.S. commodity, the exporter must make a showing that barter exports to the country will result in additional business. A country that is recognized as not being a particularly good market for a given U.S. commodity is generally freely eligible to receive barter shipments.

During the 1969–70 marketing year, the world supply of cotton was large and competition was stiff. After modification of our barter program for cotton in July 1969, sales under the program increased dramatically from 275,000 bales in fiscal 1969 to 687,000 bales in 1970 and 1.9 million bales in 1971.

This year, with our reduced supply, the situation is quite different and several months ago we sharply curtailed the market destinations eligible to receive cotton under the program.

What does the barter program mean to farmers? Like short-term credit, this program has risen dramatically over the past 3 years. Last year, it was responsible for an alltime high export total of $870 million, more than 10 percent of the nation's farm export total. To a large extent this was add-on business and a direct contribution to cash exports and balance of payments.

Export payments. Cash payments to exporters to enable them to meet foreign competition in worldwide markets are made on only three commodities—wheat and flour, rice, and tobacco. The payment rate for wheat and flour is announced every day and that for rice every week.

The principal development in the export payment program this past year has been an approximate doubling in the payment rate for rice. This is the result of steep increases in world rice production during the late 1960's that led to a sharp drop in the world price level in 1970 and 1971. The Department was reluctant to increase the payment rate but eventually found that it must if we were to maintain rice export markets developed with great effort.

Today, the picture is changing somewhat. Large exports under P.L. 480 to Korea and Indonesia are helping offset reduced concessional sales to Vietnam, India, and Pakistan, while the increased export payment rate is helping us in our commercial markets.

Sale of CCC-owned commodities at world prices. These are the commodities which have been taken over by CCC either in settlement of commodity loans or by purchase.

There have been two unusual developments of interest in this area in recent months.

One is a butter sales program which began in May 1971 and is still continuing. It is the first time in 5 years that the Department has sold butter for export.

Initially, shipments were authorized only to the United Kingdom, but the program was later opened up to all countries eligible to import U.S. commodities. The butter was originally priced at 50 cents a pound, but this has been raised twice and we are now selling at 54½ cents.

As of February 1, a total of 137 million pounds of butter had been sold. Most of this has gone to the United Kingdom, but some has been taken by Canada and some, quite surprisingly, by Switzerland, which is apparently diverting more of its dairy output to cheese. While the loss to CCC is approximately 15 cents a pound below the support price it paid for the butter, the sales also represent a substantial recovery of funds that would have been lost.

A potentially more far-reaching use of this program was the feedgrain sale to the Soviet Union in November.

It is important that it be clearly understood that this was not a government-to-government transaction. Two U.S. grain firms made the sales to Russia. They purchased the barley and oats from CCC at world prices, and bought the corn commercially on the domestic market.

OUTLOOK HIGHLIGHTS

U.S. FARM EXPORTS

By Economic and Statistical Analysis Division, Economic Research Service

WHEAT. U.S. exports for the 1971-72 season are now estimated at 575 million bushels, down about a fifth from last season's high level. A record 1971 world wheat crop has increased supplies of other exporters and lowered demand of some importing nations. The adverse effect of the dock strikes has also resulted in lost export sales.

The expected decline in U.S. exports would reduce total disappearance to 1,400 million bushels, 8 percent less than last season. Carryout stocks may reach 971 million bushels.

The larger 1971 wheat harvest, especially in many importing countries, indicates that import demand may be down about 7 percent from the high level of 53.6 million tons in 1970-71. The increased wheat crop in Europe will be the major depressing factor on world wheat trade. However, carryovers are unusually low, and some of the 1971 wheat crop will likely go toward rebuilding stocks.

World wheat trade in 1971-72 will benefit somewhat from increased purchases by the Soviet Union. The USSR will take about 1 million tons of Canadian wheat remaining on a 1966 long-term contract and will also purchase up to about 2.5 million tons on a new contract. In addition, the Soviet Union contracted to purchase 500,000 tons each from France and Australia. (A further sale of Canadian wheat totaling up to 5 million tons to the USSR was announced February 28.)

Other wheat markets are expected to show little net change from 1970-71. Turkey, North Africa, India, and Brazil are likely to take less. But this could be offset by increases in imports by Pakistan, the Middle East, and markets in the Far East which have an uptrend in consumption and imports.

With large exportable supplies available, competition among wheat exporters in 1971-72 has been strong. This is partly reflected in lower world prices. Canadian exports, braced by large sales to Mainland China and the USSR, are expected to be up a sixth from last year's 11.5 million tons. Australia's shipments are estimated to be down only slightly from the 1970-71 record of 9.3 million tons. France, which again has picked up in export activity, may increase shipments as much as 2 million tons.—JAMES J. NAIVE

FEEDGRAINS. U.S. exports for crop year 1971-72 probably will continue close to the 21 million short tons shipped last year. This would bring total disappearence to around 184 million tons, nearly 10 million above 1970-71. Even with such an increase, the big supply would boost carryover to around 55 million tons, the largest since 1964.

Relatively low **corn** prices this year and much more favorable livestock-feed price ratios are expected to bring heavier usage during the 1971-72 marketing year. Exports may be up 75-100 million bushels.

Corn is much cheaper this year in relation to **grain sorghum** than in the 1970-71 feeding year and probably will replace some sorghum feeding. Exports of sorghum dropped substantially this year and may be around a third less than the 144 million bushels shipped out in 1970-71.

Production of **barley** increased in 1968-71 from the low point of 1967. But an increase in domestic use and exports in 1970-71 brought a substantial reduction from the record stocks on hand July 1, 1970. The big barley crop in 1971 resulted more from higher yield than from larger acreage. Higher barley prices this year, despite the big crop, are expected to reduce exports.—MALCOLM CLOUGH

OILSEEDS, FATS, AND OILS. U.S. exports of of soybeans during the 1971-72 marketing year are expected to exceed 400 million bushels but fall short of last year's record 433 million bushels. From September 1 through early February about 204 million bushels were inspected for export, roughly the same as a year ago. This heavy movement may reflect in part uncertainties over the possible renewal of dock strikes at east coast and gulf coast ports. Exports probably will fall behind the 1970-71 rate as supplies shrink.

Export demand for soybeans stays strong, primarily because of the soybean meal demand, but U.S. supplies available for shipment are down this year and prices are higher. Competing protein meals (fish, peanut, and rapeseed) are somewhat greater but soybean meal holds a preferred position.

Soybean oil exports during 1971-72 will probably decline to around 1.2 billion pounds—down a fourth from last year's record 1.7 billion pounds. U.S. dollar exports face stiffer competition from a marked increase in the supply of edible oils available from other exporting countries. Also, the recent war between India and Pakistan has dampened U.S. export prospects to these countries—both large takers of soybean oil under P.L. 480. Yugoslavia probably will require less U.S. oil (under CCC credit) because of increased availability of fats and oils from alternative sources. In 1970-71 these three took half the U.S. soybean oil exported.

Soybean oil exports during October-December 1971 totaled 347 million pounds, down slightly from 1970. Exports may hold up well this January-March but will probably fall off sharply during April-September 1972.

Exports of **cottonseed oil** this season may total 400 million pounds, up from the 359 million shipped in 1970-71. During August-December exports reached 137 million pounds, two-fifths ahead of the 1970-71 rate. Cottonseed oil is sold for dollars; Western Europe and Egypt are the major markets.

Exports and shipments of **lard** may drop to around 300 million pounds from 382 million in 1970-71. As in the past several years, the United Kingdom takes most of its imports under the U.S. lard export payment program. So far this marketing year, about 50 million pounds have been accepted by USDA compared with 150 million a year ago. The payment rate continues at 1 U.S. cent per pound. Lard exports U.S. surplus butter by relaxing butter import quotas until during October-December 1971 were 54 million pounds, compared with 101 million a year earlier.

Exports of **butter** during 1971-72 are up sharply from last season's 20 millon pounds, as shipments pick up under the USDA export program, which began in May 1971 for CCC-owned butter to the United Kingdom. Because of short supplies in the principal supplying countries (Denmark, Australia,

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Case for U.S. Farm Trade

(Continued from page 3)

tural products. Even in a world where restrictionism has been growing, we have continued to expand our farm exports—and those commodities that led the way are those where we have an economic advantage.

Of course, there is nothing permanent about economic advantage; it can decline with time and technological change. On the other hand, an advance in technology and in productivity can result in the creation of a new market—even a new industry. We saw this in soybeans.

In a very few decades, soybeans advanced from a new crop, almost unknown in this country, to a position of No. 1 among all U.S. farm exports.

On a smaller scale, we have seen U.S. growers of almonds create for themselves a position of comparative advantage in the world. Just a few years ago, the United States was a net importer of almonds; it is now on a net export basis in almonds amounting to over $50 million a year.

Agriculture, a champion of liberal trade from the beginning of this Nation, continues to be a mainstay among those groups that favor an open world of expanding commerce. But even in agriculture, there are voices that seem to call for the United States to quit exporting, close its borders to agricultural imports, and produce only for the domestic market.

The argument goes about like this: "For the sake of the U.S. balance of payments, farmers are asked to produce and sell at world prices. They are asked to compete with nations that have much lower standards of living and labor costs."

That, of course, is the classic argument for trade restrictionism. But it is particularly false and dangerous when it is voiced by those who claim to speak on behalf of an American agriculture made up of the world's most efficient producers.

The record U.S. farm exports of recent times were accomplished as a result of the efforts of our efficient American farmers in direct competition with overseas agricultures that have lower standards of living and labor costs.

To produce only for the domestic market could require American farmers to take about 70 million acres of cropland out of production—on top of the acreage already idled under our farm programs.

And what about imports? What about the reality of closing the borders of the United States? Obviously, if we close the border for our agriculture to protect certain price objectives, we must close it also for industry and labor. It is not realistic to assume that the American public would long be willing to *underwrite the cost* involved in a protected agriculture and a protected industry.

In a system of producing only for the domestic market, prices could be kept up only through a costly support system of some kind. The natural effect of a major loss of market would be to drive prices down. An expanding market, on the other hand, has the potential for higher prices.

Certainly, prices would not have reached the level of the past year had we not had the advantage of a foreign market. But this financial return is coming from the market rather than from the taxpayer. Cotton offers an identical price situation, as influenced by foreign sales.

It is essential that we continue to work toward an open market system—that we merchandise well and compete effectively in price and quality. It is also important that we produce to meet market needs—abroad as well as at home. A prime objective of 1972 domestic programs is to reduce feedgrain acreage while avoiding actions that might reduce plantings of soybeans and cotton—crops with good market demand.

Changes in the 1972 feedgrain program, along with the additional incentive announced earlier for wheat, will mean larger payments to farmers. This will increase income from grains, but in a manner consistent with the goals of a better production balance and a loan level that permits our products to compete.

An alternative sometimes suggested is to raise CCC loan levels. It is true that such a move might provide a temporary boost in farmer returns. But at the same time, it would bring a skyrocketing of output and a shrinking of utilization. Thus, it would be an extremely shortsighted thing to do.

The position of American agriculture in world trade can be maintained only if we discipline ourselves in establishing loan levels. Experience through the years proves that our loan levels can operate as a very real price umbrella over world production. Such an umbrella not only encourages increased competition in other countries but damages the U.S. producer's ability to compete.

To avoid this, some people would have us turn to export subsidies. The competitive shock of higher CCC loan rates in the United States could be softened, they say, by a greater use of export subsidies. Thus we could have our cake and eat it too.

One of the problems raised by that argument is that such an increased use of government resources would be a reversal in U.S. trading policy. It would damage our trade prospects in other ways.

On a trend basis during the past several years we have been paying less money, not more, for export subsidies. We are encouraging our trading partners, especially the European Community, to use greater restraint in applying export subsidies. As we make further progress in this direction, we can expect that U.S. producers will benefit because of their greater comparative advantage in a world where government price fixing is at a minimum.

The fact is that foreign buyers will continue to have a great deal of influence on the individual farmer's income here in the United States. It is therefore in the U.S. interest that we be consistent in our trade expansion efforts, and not fall into the temptation to join in restrictive practices.

This does not mean that we should not bargain hard—to build markets and maintain access to those markets. It does mean that we should keep our eye on the main objective—a world trade that provides our agriculture with the opportunity for growth.

As President Nixon summed it up at a recent White House Conference: "We are not going to become isolationist in our foreign policy and we are not going to become protectionist in our economic policy. We are not about to forget the secret of the world's highest standard of living—a competitive spirit that results in rising productivity."

World Trade Environment

(Continued from page 9)

the regionalism of the European Community toward the common goal of increased trade for the benefit of all.

How then does the Soviet Union conduct its trade? What does it think of multilateralism, price as a trade regulator, and government-business relationships? Since 1949, trade within the Soviet-East European area has been organized within the framework of the Council of Mutual Economic Assistance (Comecon). Trade with countries both within and outside this area is conducted on the basis of bilateralism rather than multilateralism, largely because of the way socialist states are organized and also to some extent because of particular developments inside Eastern Europe since World War II.

In the period following World War II, the Soviet Union forcefully redirected the trade of the East European countries away from the West toward the Soviet Union and China. Approximately 75 percent of the foreign trade of the Comecon nations was conducted with the West prior to World War II; by 1953, less than 16 percent of Comecon foreign trade was with countries outside the Comecon-China area. Trade with Western nations was minimal.

The Soviet Union has finally realized that it is impossible to simulate a world market within an area that produces less than 30 percent of world industrial output. Thus, the Comecon nations began to turn increasingly outward during the 1960's. But they have far to go.

As for price, and government-business relationships, we all know the Comecon nations maintain centrally planned economies in which imports and exports are determined by the economic plan. Government control of imports rather than tariff duties constitutes the major impediment to market access. In a similar way, Comecon exports serve as a means of securing the foreign currency needed to pay for imports, usually under bilateral trade agreements or barter arrangements.

Prices have usually been set near the world level in trade with Western nations in order not to meet charges of dumping, but they appear to be fairly flexible in inner-Comecon trade. Export prices do not generally reflect costs, but rather a combination of needs and bargaining potential. Political concerns may also influence trade patterns, as may foreign aid commitments.

Cautious decentralization in the Soviet Union and reforms of a more pronounced nature in Eastern Europe have been loosening the tight bonds which tied business to government concerns within Comecon nations. Fewer guidelines have been imposed by the central administration, and industrial groups in some East European nations have been given more freedom to establish plans within these guidelines, basing decisions more on cost-price considerations.

Nevertheless, it is clear that this system does not mesh readily with any of the three we have just discussed.

Now, as we move into a new period of trade negotiations, we must appreciate fully the magnitude of the task we have before us. It is not just a question of reducing tariffs, eliminating NTB's or reforming agricultural programs.

We are talking about fundamental and divergent attitudes toward the organization of economic affairs nationally and internationally.

The test before us now is whether countries can reconcile these divergent views, whether they can generate political will, and translate it into practical measures which will ensure the continued prosperity and expansion of all economies engaging in international trade. This is the challenge which all of us will be trying to meet during the next 2 years. If we are successful, I believe we can look forward to another quarter century of trade even more prosperous than the one just passed.

Export Highlights (Continued from page 14)

and New Zealand), the United Kingdom opened the door for March 31, 1972. On July 1, the export sales program was expanded to other countries. Originally, the CCC sales price was 50 U.S. cents per pound, but it was upped to 54 cents last fall.—GEORGE W. KROMER

TOBACCO. The outlook for U.S. tobacco exports in 1972 is highlighted by prospects for cigarette consumption to edge ahead of last year's record-high level. However, larger competing supplies in our overseas markets, Rhodesia's probable resurgence in world trade, and possible shipping tie-ups hinder the recovery of our exports. Still, U.S. growers had a smaller crop this past season and can expect a substantial decline in carryover stocks. This year growers are expected to harvest more tobacco, so cash receipts should gain.

U.S. exports of tobacco and tobacco products in 1971 advanced over 1970 to $684 million, but fell short of 1969's record $696 million. Unmanufactured tobacco exports declined to $462 million in 1971, while tobacco product exports reached a record high of $221 million. In recent years leaf and product exports have taken a third of the crop.

Unmanufactured tobacco exports in 1971 totaled 473 million pounds export weight (524 million, farm sales weight)—7 percent below 1970. Exports in 1972 will do well to maintain the 1971 level. The dock strikes at east and gulf coast ports brought exports to a virtual standstill in October and November. Some of this shortfall will be made up in early 1972, but our major market, the United Kingdom, is reducing takings from the United States.—ROBERT H. MILLER

COTTON. U.S. exports in 1971-72 may total near or slightly above 3 million bales, compared with last year's 3¾ million bales. August-December shipments total 1.4 million bales, well above the year-earlier period. However, this figure was boosted by shipments from last year's crop, which were delayed by the west coast dock strike, and by large early movement this season in anticipation of further dock difficulties. Dwindling supplies and higher prices, particularly for shorter staples, are limiting export opportunities this year.

World trade is also being limited by a fairly tight supply-demand situation and rising cotton prices. Trade may equal last year's 17.7 million bales despite stronger demand. But the U.S. share may dip to about 17 percent, from 21 percent.

The consumption-production gap in foreign non-Communist countries is narrowing sharply this season, after widening for 2 consecutive years. Since stocks abroad may remain low this year, U.S. exports could benefit next season from any rebuilding of these stocks.—JAMES R. DONALD

CROPS AND MARKETS

GRAINS, FEEDS, PULSES, AND SEEDS

Rotterdam Grain Prices and Levies

Current offer prices for imported grain at Rotterdam, the Netherlands, compared with a week earlier and a year ago:

Item	Mar. 8	Change from previous week	A year ago
	Dol. per bu.	*Cents per bu.*	*Dol. per bu.*
Wheat:			
Canadian No. 1 CWRS-14	2.00	+4	[1] 1.99
USSR SKS-14	([2])	([2])	1.99
Australian FAQ	([2])	([2])	1.88
U.S. No. 2 Dark Northern Spring:			
14 percent	1.93	0	2.00
15 percent	1.99	+3	2.05
U.S. No. 2 Hard Winter:			
13.5 percent	1.79	0	1.98
No. 3 Hard Amber Durum	1.83	+5	2.01
Argentine	([2])	([2])	([2])
U.S. No. 2 Soft Red Winter	([2])	([2])	1.90
Feedgrains:			
U.S. No. 3 Yellow corn	1.41	0	1.77
Argentine Plate corn	1.56	−2	1.76
U.S. No. 2 sorghum	1.47	+1	1.51
Argentine-Granifero sorghum	1.49	+1	1.50
U.S. No. 3 Feed barley	1.20	0	1.47
Soybeans:			
U.S. No. 2 Yellow	([2])	([2])	3.39
EC import levies:			
Wheat [3]	[4]1.65	+3	1.46
Corn [5]	[4]1.15	+4	.78
Sorghum [5]	[4]1.05	0	.91

[1] Manitoba No. 2. [2] Not quoted. [3] Durum has a separate levy. [4] Effective October 14, 1971, validity of licenses with levies fixed in advance is a maximum of 30 days. [5] Until Aug. 1, 1972, Italian levies are 19 cents a bu. lower than those of other EC countries. Note: Basis—30- to 60-day delivery.

Estimates of Japan's Feedgrain Imports Reduced

Japanese feedgrain import requirements this fiscal year are now projected at just over 10 million tons, slightly below the 10.3 million imported a year ago and considerably below earlier forecasts of 10.7 million tons. Requirements next year are projected at around 11.3 million tons, also somewhat down from the 11.8 million tons forecast about 3 months ago.

South African Corn Harvest Down But Exports To Continue Heavy

Forecasts of South Africa's coming corn harvest have reportedly been reduced to about 9 million tons due to inadequate rains during the last 3 weeks and could be reduced approximately another million tons if adequate rains are not received during the next month.

A crop of 8 million tons would still provide exportable supplies of more than the maximum 3.0 million to 3.3 million tons—export capacity of the transportation system—and would remove the necessity for temporary storage of large quantities of corn.

FRUITS, NUTS, AND VEGETABLES

Netherlands Prices of Canned Fruits and Juices

Quotations represent wholesale offering prices of canned fruits and juices in the Netherlands in January compared with prices in the previous quarter and last year. Prices are on a landed weight basis including the sugar-added levy but excluding the value-added tax.

Type and quality	Size of can	Price per dozen units [1] Jan. 1971	Oct. 1971	Jan. 1972	Origin
CANNED FRUIT		*U.S. dol.*	*U.S. dol.*	*U.S. dol.*	
Apricot halves:					
Heavy sirup	2½	3.25	3.25	3.62	Greece
Fruit cocktail:					
Choice	2½	5.14	—	5.77	Australia
Do	2½	4.74	4.64	5.25	Italy
Do	2½	—	—	4.28	S. Africa
Peaches, halves:					
Fancy	2½	4.48	4.81	5.36	France
Choice, light sirup	2½	—	—	4.29	S. Africa
Standard	2½	3.05	2.95	3.37	Greece
Peaches, sliced:					
Standard	2½	—	—	4.29	Australia
Do	2½	—	—	3.81	S. Africa
Pineapple slices:					
Fancy, heavy sirup	2½	4.94	4.93	5.25	U.S.
Choice	2½	4.61	4.71	4.92	U.S.
Heavy sirup	2½	—	—	3.55	Ivory Coast
Do	20 oz.	—	—	2.55	Taiwan
CANNED JUICES					
Orange, unsweetened	[2]1 ltr.	3.78	3.78	3.88	Israel
Grapefruit, unsweetened	[2]1 ltr.	3.88	3.88	4.33	Israel

[1] Converted at 3.082 guilders per dollar for January 1972 and 3.620 guilders for previous quotations.
[2] Packed in glass bottles.

Bad Weather Shrinks French Prune Hopes

Unfavorable weather curtailed French prune crop expansion for the second consecutive year. Severe summer storm and hail damage destroyed 1971 production on about 2,500 acres. Reports indicate between 150,000 and 200,000 trees were damaged. Production totaled 15,400 short tons, the same as 1970 and above average, but 12 percent below the 1969

record of 17,600 tons. Both size of fruit and quality were reported average.

French exports are insignificant, averaging slightly over 1,000 tons during 1965-69 and totaling only 606 tons during the 1970-71 season. Current season exports are forecast at 1,600 tons, the same level as 1969-70. Exports totaled 500 tons during September-December 1971; Algeria, Spain, Finland, and Sweden were the principal buyers.

Imports are forecast at 4,400 tons, 30 percent less than the 1970-71 season level. Imports totaled 1,400 tons during September-December 1971, much below the 2,500 tons of a year earlier. The United States and Yugoslavia are the two major suppliers. Average grower prices were lower, reflecting the smaller fruit sizing of the 1971 crop.

PRICES PAID TO FRENCH PRUNE GROWERS

Size	Price 1970	1971
	Cents per lb.	*Cents per lb.*
44	29.9	30.3
55	27.0	27.4
66	23.7	24.1
77	20.5	20.9
88	17.2	17.6
99	13.9	14.3
110	10.6	11.5
120	9.8	10.2
130	9.0	9.0
140	8.2	8.2

FRANCE'S SUPPLY AND DISTRIBUTION OF PRUNES

Item	1968-69	1969-70	1970-71 [1]	1971-72 [2]
	1,000 short tons	*1,000 short tons*	*1,000 short tons*	*1,000 short tons*
Beginning stocks (Oct. 1)	3.0	2.8	1.9	4.4
Production	16.0	17.6	15.4	15.4
Imports	4.5	5.4	6.3	4.4
Total supply	23.5	25.8	23.6	24.2
Exports	1.2	1.6	.6	1.6
Domestic disappearance	19.5	22.3	18.6	19.5
Ending stocks (Sept. 30)	2.8	1.9	4.4	3.1
Total distribution	23.5	25.8	23.9	24.2

[1] Revised. [2] Forecast.

DAIRY AND POULTRY

Lebanon's Dairy Industry May Be Entering New Era

The Lebanese dairy industry may soon be entering a new era. Reduced availability of butter and dry milk from the European Community as well as from other West and East European exporting countries, together with the sharp rise in retail prices in 1971 (more than double on some items), may provide the necessary incentive for action by both Government and farmers to increase domestic production of dairy products. Efforts are being made to import dairy breeding stock to build up domestic herds.

A shipment of 50 bred heifers was imported from Holland last November by private dairy farmers. Also, the American University Beirut School of Agricultural Sciences recently received a herd of 50 Guernsey heifers from the United States (donated by Heifers, Inc.) for experimental work in dairy herd development and for student and farmer demonstrations in Lebanon and the Middle East. The Government itself has initiated an ambitious program to purchase 12,000 Holstein-Friesian bred heifers over a period of 5 years for sale to farmers at two-thirds cost.

Imports of dairy products in fiscal 1972 are expected to include 4,500 metric tons of fluid milk, 8,000 tons of dry milk, 800 tons of ghee, 3,500 tons of butter, and 7,300 tons of cheese, mainly from East and West European countries. U.S. exports of nonfat dry milk and infant and dietetic milk foods to Lebanon in 1971 totaled 636,000 and 116,000 pounds, respectively.

LIVESTOCK AND MEAT PRODUCTS

U.S. Meat Imports Up in January

U.S. meat imports subject to the Meat Import Law during January 1972 totaled 86.9 million pounds. This quantity was 4 percent larger than the January 1971 level of 83.4 million pounds.

Australia and Ireland accounted for most of the increase and offset smaller declared entries from New Zealand, Costa Rica, Mexico, and Canada. Imports from the largest supplier—Australia—totaled 41.2 million pounds, followed by New Zealand with 10.7 million, Ireland with 9.0 million, Costa Rica with 6.8 million, and Mexico with 5.6 million.

U.S. IMPORTS OF MEAT SUBJECT TO MEAT IMPORT LAW,[1,2] JANUARY 1972, WITH COMPARISONS

Country of origin	January 1971	1972	Percent change
	1,000 pounds	*1,000 pounds*	*Percent*
Australia	30,644	41,195	+34
New Zealand	15,155	10,702	−29
Ireland	5,821	8,991	+54
Costa Rica	7,439	6,761	− 9
Mexico	8,429	5,586	−34
Nicaragua	4,369	4,520	+ 3
Canada	6,286	4,133	−34
Honduras	2,913	2,229	−24
Guatemala	1,601	1,865	+16
Dominican Republic	345	658	+91
Panama	234	203	−13
United Kingdom	119	37	−69
Haiti	73	28	−62
Total [3]	83,428	86,906	+ 4

[1] Preliminary. [2] Fresh, frozen, and chilled beef, veal, mutton, and goat meat including rejections. Excludes canned meat and other prepared or preserved meat products. [3] May not add due to rounding.

U.S. IMPORTS OF MEAT SUBJECT TO MEAT IMPORT LAW (PL 88-482)

Imports	Jan. 1972	Jan. 1971	Jan. 1970
	Million pounds	*Million pounds*	*Million pounds*
Subject to Meat Import Law [1]	86.9	83.4	124.5
Total beef and veal [2]	105.2	95.3	137.8
Total red meat [3]	158.9	133.2	170.2

[1] Fresh, chilled, and frozen beef, veal, mutton, and goat meat including rejections. [2] All forms including rejections. [3] Total beef, veal, pork, lamb, mutton, and goat.

COTTON

India To Process Soviet Cotton

Further details have been released regarding the Indo-Soviet agreement under which India will process approximately 92,000 bales (480 lb. net) of Soviet cotton for return as textiles to the Soviet Union.

Soviet medium-staple cotton of 1-1/16 inches or less should arrive in India beginning in April 1972. The cotton will be made into toweling and similar woven goods for the Soviet Union. Processing is expected to be completed during calendar 1972. India has previously imported little cotton from the Soviet Union—less than 3,000 bales total in the last decade, 1960-70.

The imported Soviet cotton reportedly can be used by any of the Indian mills that are currently using U.S. cotton. Earlier press reports that only mills using Soviet equipment would be allowed to process and reexport the textiles to the Soviet Union have not been officially verified.

Indian textile mills were reportedly sharply divided over the prospect of processing Soviet cotton. A proposal to import Soviet-financed Sudanese long-staple cotton (rather than the medium- to short-staple Soviet cotton, which is similar to Indian cotton) has now been abandoned.

SUGAR AND TROPICAL PRODUCTS

Australia Harvests Record Sugarcane Crop

During the 1971 season, excellent weather conditions in Australia's Queensland sugarcane growing district allowed for a record total harvest of over 21 million short tons of cane. This record was attained despite a lower cane output in the New South Wales District.

Sugar output was also at record levels and more than sufficient to cover the aggregate mill production quotas. The Australian Sugar Board issued production quotas for excess sugar of 34 percent above the minimum mill peaks, and total output is estimated at 2,986,600 tons, tel quel (total to be produced at different degrees of polarization).

The outlook for 1972 is also favorable, as rainfall has been adequate in all areas and damage from cyclones has been minimal. Sugar production is currently forecast to be about the same as last year.

African Tea Production Down Slightly in 1971

According to preliminary data, African tea production in 1971 approximated 115,000 metric tons, compared with 1970 production of 118,500 tons.

Reflecting drought conditions earlier in the year, Kenya's 1971 tea crop totaled 36,290 tons, off nearly 12 percent from the record 1970 harvest of 41,077 tons. Malawi's crop fell slightly to 18,615 tons from 18,731 tons, and Uganda's production, at 17,977 tons, also was slightly lower than the 18,217 tons harvested a year earlier. Although the final data on Mozambique's crop is not yet available, indications are that the 1971 crop will fall just under the 16,974 tons of the previous year.

In contrast to lower production of other African producers, Tanzania's 1971 crop was a record one, totaling 10,457 tons, compared with 8,492 tons in 1970.

TOBACCO

Britons Smoke Fewer Cigarettes

Latest reports from the United Kingdom indicate that tobacco consumption in calendar 1971 fell about 4.5 percent from 1970. Almost all of the decline occurred in cigarettes, which dropped from 127.9 billion pieces to 122.4 billion. The use of tobacco for hand-rolled cigarettes also declined about 8.5 percent during the year.

The rapid advance of filtered brands (using less manufactured weight per unit of cigarettes) at the expense of plain brands continued in 1971, reaching about 80 percent, compared with 78 percent in 1970 and only 19 percent 10 years earlier. The United Kingdom's tobacco tax system has been a major factor in this switch towards filter brands and to smaller, thinner brands. The United Kingdom collects a substantial revenue from tobacco by a tax per pound (about $13.00) on all leaf used in manufacture. Since the tax element results in a significant difference in cost per packet of cigarettes, manufacturers attempt to make maximum use of raw tobacco in each unit of cigarette output. Consequently, compared with 10 years earlier (1961), the average tobacco weight in filter cigarettes has dropped by 15 percent and in plain cigarettes, by 9 percent.

For cigars, on the other hand, consumption went up sharply during the year and the manufactured weight of tobacco used increased by 39 percent. Pipe tobacco consumption also increased about 1.5 million pounds in the year. Consumption of small cigars, cheroots, and cigarillos, however, fell about 9.5 percent in numbers of pieces. Snuff consumption continued unchanged at about 400,000 pounds.

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U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250

PENALTY FOR PRIVATE USE, $300
OFFICIAL BUSINESS

United States International Policy (Continued from page 11)

tion could be eased by harmonizing national policies.

The method of financing is important. The United States considers that, subject to certain exceptions in hardship cases, it is sound economics to require that the polluting industries pay the costs of control and reflect these costs in product prices. Fortunately, there appears to be widespread agreement internationally on this principle. But if other governments should decide to finance the required changes in production processes out of tax revenue so that their firms need not bear the burden directly, international competitive relationships could be greatly affected. Environmental control programs are still in their early stages in many countries. This offers us an unusual opportunity —if we act promptly—to negotiate basic guidelines that will prevent problems before they develop.

On a more general level, we need to know how ambitious we can realistically be in these forthcoming negotiations. The Williams Commission conceived the task to be one of coping with certain urgent international economic problems and preparing the way for the elimination of all barriers to international trade and capital movements within the next 25 years. Most tariffs, they believed, could be progressively eliminated over the next 10 years and all tariffs over the next 25. Ralf Dahrendorf, a member of the Commission of the European Communities, has recently suggested a North Atlantic free trade area. These are bold proposals. We need to consider them seriously.

If we adopt an ambitious approach, we will need to reconcile a major reduction in trade barriers with avoidance of undue disruptive effects on workers, communities, and firms. Adjustment assistance and the other measures I mentioned earlier can provide a partial answer. A flexible time-frame can also soften the burden. But there will no doubt be cases where temporary trade restrictions will be necessary when other measures are not adequate to facilitate adjustment. Indeed this would be so whether or not new negotiations were undertaken. Trade patterns are changing at a much more rapid rate than in the past. We must find a way to match the pace of change with our capacity to adjust under terms fair to exporting and importing countries alike. The alternative is a further erosion of the multilateral trading system.

In recent years we and others have been making increasing use of negotiated export restraint agreements, usually worked out in bilateral discussions. This has been done at a rather considerable international political cost because the discussions, in a bilateral context, are usually conducted under the implicit threat of legislated import quotas. There is increasing interest in the possibility of establishing multilateral guidelines and procedures for these arrangements.

The Williams Commission examined this question and concluded that "orderly marketing agreements"—that is, export restraint agreements—would be appropriate under the following conditions: imports of particular products cause or threaten severe domestic adjustment problems in more than one importing country; serious injury or the threat thereof has been demonstrated under internationally agreed standards; and the solution to the problem requires multilateral action. The Commission recommended that the negotiation of such agreements normally be conducted under the auspices of GATT; that the agreements be limited in time—normally to no more than 5 years; that they provide for a reasonable annual rate of growth of imports; and that they be accompanied by measures of adjustment taken by affected industries in all restricting countries.

Agriculture will be given considerable attention in the coming months. Indeed, in view of the importance of agricultural trade to the United States, tangible results in trade terms for these products are essential to the negotiations.

It is clear that we cannot deal here just with restrictions at the border. Internal price-support levels and alternative ways of maintaining farm income will have to be addressed. The European Community's approach to those issues seems to focus on commodity agreements. We have indicated that such agreements do not seem useful. However, we may find common ground in some sort of interim arrangement providing for market access while progressively increasing the play of market forces. What seems most important is not the form of interim measures but the commitment to full liberalization of agricultural trade.

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